



興證國際金融集團有限公司
China Industrial Securities International Financial Group Limited
(Incorporated in the Cayman Islands with limited liability)

Stock code : 8407



INTERIM
REPORT
2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of China Industrial Securities International Financial Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

Mr. Lan Rong (*Chairman*)
Ms. Zhuang Yuanfang (resigned on 12 July 2017)
Mr. Huang Yilin (appointed on 12 July 2017)

Executive Directors

Mr. Huang Jinguang (*Chief Executive Officer*)
Mr. Wang Xiang
Ms. Zeng Yanxia

Independent Non-executive Directors

Ms. Hong Ying
Mr. Tian Li
Mr. Qin Shuo

BOARD COMMITTEES

Audit Committee

Ms. Hong Ying (*Chairlady*)
Ms. Zhuang Yuanfang (resigned on 12 July 2017)
Mr. Huang Yilin (appointed on 12 July 2017)
Mr. Tian Li

Remuneration Committee

Mr. Tian Li (*Chairman*)
Mr. Lan Rong
Mr. Qin Shuo

Nomination Committee

Mr. Lan Rong (*Chairman*)
Mr. Tian Li
Mr. Qin Shuo

COMPANY SECRETARY

Mr. Cho Ka Wai

COMPLIANCE OFFICER

Ms. Zeng Yanxia

AUTHORISED REPRESENTATIVES

Ms. Zeng Yanxia
Mr. Cho Ka Wai

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISER

Haitong International Capital Limited

REGISTERED OFFICE

PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

32/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

Corporate Information

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR

Tricor Services (Cayman Islands) Limited
P.O. Box 10008
Willow House
Cricket Square
Grand Cayman KY1-1001
Cayman Islands

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Industrial Bank Co., Ltd. Hong Kong Branch
Wing Lung Bank Limited
Fubon Bank (Hong Kong) Limited
China Citic Bank International Limited
Shanghai Pudong Development Bank Co., Ltd.
Hong Kong Branch
China Everbright Co., Ltd. Bank Hong Kong Branch

WEBSITE

www.xyzq.com.hk

STOCK CODE

8407

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2017 together with the comparative figures as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

| | Note | 2017 HK\$ Unaudited | 2016 HK\$ Unaudited |
|---|------|---------------------------|---------------------------|
| Revenue | 3 | 358,380,046 | 168,815,936 |
| Other income | 3 | 7,822,277 | 3,028,330 |
| Finance costs | | (65,831,965) | (26,878,691) |
| Commission and fee expenses | | (39,709,373) | (22,180,425) |
| Staff costs | 5 | (78,886,571) | (52,659,945) |
| Other operating expenses | | (56,677,555) | (43,076,437) |
| Listing expenses | | – | (7,037,726) |
| Impairment loss on accounts receivable | 12 | (107,347,146) | – |
| Other gains or losses | 5 | 52,457,903 | (679,472) |
| Profit before taxation | 5 | 70,207,616 | 19,331,570 |
| Taxation | 6 | (10,587,601) | (5,079,695) |
| Profit for the period | | 59,620,015 | 14,251,875 |
| Other comprehensive income (expense) | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Change in fair value of available-for-sale financial assets | | (1,957,598) | 14,174,709 |
| Disposal of available-for-sale financial assets | | 22,201,045 | (1,760,729) |
| Other comprehensive income for the period | | 20,243,447 | 12,413,980 |
| Total comprehensive income for the period attributable to owners of the Company | | 79,863,462 | 26,665,855 |
| Earnings per share | | | |
| Basic (expressed in HKD) | 8 | 0.0149 | 0.0101 |

Condensed Consolidated Statement of Financial Position

At 30 June 2017

| | Notes | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|--|-------|---|---|
| Non-current assets | | | |
| Property and equipment | | 4,529,931 | 6,942,085 |
| Intangible assets | | 2,088,151 | 2,612,040 |
| Available-for-sale financial assets | 10 | 3,727,764,020 | 3,181,350,771 |
| Loans receivable | 11 | 3,000,000 | 2,000,000 |
| Statutory deposits | | 14,339,564 | 8,875,453 |
| Deposits, other receivables and prepayments | | 16,431,345 | 7,612,939 |
| | | 3,768,153,011 | 3,209,393,288 |
| Current assets | | | |
| Accounts receivable | 12 | 4,304,848,643 | 4,090,591,460 |
| Loans receivable | 11 | 71,900,000 | 73,400,000 |
| Financial assets at fair value through profit or loss | 9 | 1,656,007,536 | 1,803,902,667 |
| Statutory deposits | | 15,294,930 | 3,614,360 |
| Deposits, other receivables and prepayments | | 105,104,338 | 73,249,491 |
| Bank balances – trust accounts | | 2,851,292,447 | 3,171,106,387 |
| Bank balances – general accounts and cash | | 1,421,521,340 | 972,889,752 |
| | | 10,425,969,234 | 10,188,754,117 |
| Current liabilities | | | |
| Financial liabilities at fair value through profit or loss | 13 | 3,054,000 | – |
| Accounts payable | 14 | 4,198,134,264 | 4,646,186,272 |
| Accruals and other payables | | 93,573,524 | 99,594,969 |
| Amounts due to related parties | | 676,537 | 3,928,514 |
| Other liabilities | 23 | 53,617,055 | – |
| Tax payable | | 43,681,326 | 33,267,865 |
| Bank borrowings | 15 | 4,738,318,748 | 4,142,518,829 |
| Other borrowings | 16 | 674,850,769 | 177,577,860 |
| Notes | 17 | 93,657,600 | – |
| | | 9,899,563,823 | 9,103,074,309 |
| Net current assets | | 526,405,411 | 1,085,679,808 |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 370,159 | 748,295 |
| Net assets | | 4,294,188,263 | 4,294,324,801 |

Condensed Consolidated Statement of Financial Position

At 30 June 2017

| | <i>Notes</i> | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|--|--------------|--|---|
| Capital and reserves | | | |
| Share capital | 18 | 400,000,000 | 400,000,000 |
| Share premium | | 3,379,895,424 | 3,379,895,424 |
| Retained earnings | | 78,134,332 | 98,514,317 |
| Investments revaluation reserve | | (17,861,158) | (38,104,605) |
| Other reserves | | 11,577,844 | 11,577,844 |
| Capital reserve | | 442,441,821 | 442,441,821 |
| Equity attributable to owners of the Company | | 4,294,188,263 | 4,294,324,801 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

| | Equity attributable to owners of the Company | | | | | Retained earnings (Accumulated losses) | Total equity |
|---|--|---------------|-----------------|---------------------------------|----------------|---|---------------|
| | Share capital | Share premium | Capital reserve | Investments revaluation reserve | Other reserves | | |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| At 1 January 2017 | 400,000,000 | 3,379,895,424 | 442,441,821 | (38,104,605) | 11,577,844 | 98,514,317 | 4,294,324,801 |
| Dividends recognised as distribution | - | - | - | - | - | (80,000,000) | (80,000,000) |
| Profit for the period | - | - | - | - | - | 59,620,015 | 59,620,015 |
| Other comprehensive income for the period | - | - | - | 20,243,447 | - | - | 20,243,447 |
| Total comprehensive income for the period | - | - | - | 20,243,447 | - | 59,620,015 | 79,863,462 |
| At 30 June 2017 (unaudited) | 400,000,000 | 3,379,895,424 | 442,441,821 | (17,861,158) | 11,577,844 | 78,134,332 | 4,294,188,263 |

For the six months ended 30 June 2016

| | Equity attributable to owners of the Company | | | | | Retained earnings (Accumulated losses) | Total equity |
|---|--|---------------|-----------------|---------------------------------|----------------|---|---------------|
| | Share capital | Share premium | Capital reserve | Investments revaluation reserve | Other reserves | | |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| At 1 January 2016 | 1,000 | - | 491,440,821 | - | 8,419,401 | (2,605,237) | 497,255,985 |
| Deemed capital contribution from Industrial Securities (Hong Kong) Financial Holdings Limited | - | - | - | - | 2,011,411 | - | 2,011,411 |
| Issue of shares for acquisition of the Combined Business pursuant to the Group Reorganisation (Note 18) | 48,999,000 | - | (48,999,000) | - | - | - | - |
| Issue of shares to CISI Holdings and pre-IPO investors (Note 18) | 211,881,188 | 1,928,118,807 | - | - | - | - | 2,139,999,995 |
| Issue of shares under ESPS (Note 18) | 27,702,970 | 252,097,030 | - | - | - | - | 279,800,000 |
| Profit for the period | - | - | - | - | - | 14,251,875 | 14,251,875 |
| Other comprehensive income for the period | - | - | - | 12,413,980 | - | - | 12,413,980 |
| Total comprehensive income for the period | - | - | - | 12,413,980 | - | 14,251,875 | 26,665,855 |
| At 30 June 2016 (unaudited) | 288,584,158 | 2,180,215,837 | 442,441,821 | 12,413,980 | 10,430,812 | 11,646,638 | 2,945,733,246 |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

| | Note | 2017 HK\$ Unaudited | 2016 HK\$ Unaudited |
|--|------|---------------------------|---------------------------|
| NET CASH USED IN OPERATING ACTIVITIES | | (96,372,354) | (1,072,931,599) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | (918,935) | (801,274) |
| Proceeds on disposal of property and equipment | | – | 12,600 |
| Acquisition of intangible assets | | – | (88,924) |
| Cash inflow from acquisition of a consolidated structured entity | 22 | 50,481,196 | – |
| Proceeds from disposal of available-for-sale financial assets | | 3,997,657,699 | 316,462,187 |
| Purchase of available-for-sale financial assets | | (4,546,028,546) | (1,952,093,450) |
| Repayment to the intermediate holding company | | – | (2,809,179) |
| NET CASH USED IN INVESTING ACTIVITIES | | (498,808,586) | (1,639,318,040) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Interest paid | | (62,917,900) | (26,653,093) |
| Bank borrowings raised | | 14,417,544,828 | 6,604,268,890 |
| Repayments of bank borrowings | | (13,821,744,909) | (5,274,752,575) |
| Other borrowings raised | | 1,683,156,878 | – |
| Repayments of other borrowings | | (1,092,226,369) | – |
| Proceeds from issue of new shares | | – | 2,419,799,995 |
| Dividend paid | | (80,000,000) | – |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | | 1,043,812,528 | 3,722,663,217 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 448,631,588 | 1,010,413,578 |
| CASH AND CASH EQUIVALENTS AS AT BEGINNING OF THE PERIOD | | 972,889,752 | 238,022,069 |
| CASH AND CASH EQUIVALENTS AS AT END OF THE PERIOD | | 1,421,521,340 | 1,248,435,647 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS REPRESENTED BY | | | |
| Bank balances – general accounts and cash | | 1,421,521,340 | 1,248,435,647 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE: | | | |
| Interest received | | 216,456,855 | 68,399,957 |
| Dividend received | | 1,718,781 | – |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

1. GENERAL

The Company was incorporated in the Cayman Islands on 21 July 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 October 2016. The address of the Company's registered office is PO Box 1350, Clifton House, 75, Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of the Company's principal place of business in Hong Kong is 32/F, Infinitus Plaza, 199 Des Voeux Road, Central, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in the provision of brokerage services, loans and financing services, investment banking, asset management services and proprietary trading. Its immediate holding company is China Industrial Securities International Holdings Limited ("CISI Holdings") and CISI Holdings is 100% owned by Industrial Securities (Hong Kong) Financial Holdings Limited ("Industrial Securities (Hong Kong)"), the intermediate holding company of the Company. Industrial Securities Company Limited ("Industrial Securities"), a company incorporated in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC.

To rationalise the group structure in preparation for the listing of the Company's shares on the Stock Exchange, the Group has undergone the group reorganisation (the "Group Reorganisation"), as more fully explained in the section headed "History, Reorganisation and Group Structure – Reorganisation" in the prospectus of the Company dated 30 September 2016 (the "Prospectus").

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Group's unaudited condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKAS") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The unaudited condensed consolidated financial statements also comply with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements except for the adoption of the standards, amendments and interpretation issued by the HKICPA mandatory for the annual periods beginning on 1 January 2017. The effect of the adoption of these standards, amendments and interpretation is not material on these unaudited condensed consolidated financial statements.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2017 comprise the Company and its subsidiaries.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The unaudited condensed consolidated financial statements is presented in Hong Kong dollars. Hong Kong dollar is the Company's functional and the Group's presentation currency.

The measurement basis used in the preparation of the unaudited condensed consolidated financial statements is the historical cost basis.

The preparation of unaudited condensed consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***3. REVENUE AND OTHER INCOME**

An analysis of revenue and other income is as follows:

Revenue

Brokerage:

| | | |
|--|-------------------|------------|
| Commission and fee income from securities brokerage | 67,219,495 | 35,597,870 |
| Commission and fee income from futures and options brokerage | 7,841,264 | 9,915,496 |
| Insurance brokerage commission income | 1,683,497 | 1,718,743 |
| Handling and other service fee income | 6,189,551 | – |

For the six months ended 30 June

| 2017 | 2016 |
|--------------------|-------------|
| HK\$ | HK\$ |
| Unaudited | Unaudited |
| 67,219,495 | 35,597,870 |
| 7,841,264 | 9,915,496 |
| 1,683,497 | 1,718,743 |
| 6,189,551 | – |
| 82,933,807 | 47,232,109 |
| 141,506,725 | 92,781,570 |
| 2,428,811 | 10,347,986 |
| 143,935,536 | 103,129,556 |
| 4,936,113 | – |
| 11,748,646 | 2,497,786 |
| 300,000 | 50,000 |
| 2,500,000 | 2,500,000 |
| 19,484,759 | 5,047,786 |
| 4,677,019 | 2,062,588 |
| 1,620,962 | 968,360 |
| 6,297,981 | 3,030,948 |

Loans and financing:

| | | |
|---|--------------------|------------|
| Interest income from margin financing | 141,506,725 | 92,781,570 |
| Interest income from money lending activities | 2,428,811 | 10,347,986 |

Investment banking:

| | | |
|--|-------------------|-----------|
| Commission on placing, underwriting and sub-underwriting | 4,936,113 | – |
| – Debt securities | 11,748,646 | 2,497,786 |
| – Equity securities | 300,000 | 50,000 |
| Financial advisory fee income | 2,500,000 | 2,500,000 |

Asset management:

| | | |
|--------------------------------|------------------|-----------|
| Asset management fee income | 4,677,019 | 2,062,588 |
| Investment advisory fee income | 1,620,962 | 968,360 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

3. REVENUE AND OTHER INCOME (Continued)

Revenue (Continued)

| | For the six months ended 30 June | |
|---|----------------------------------|---------------------------|
| | 2017 HK\$ Unaudited | 2016 HK\$ Unaudited |
| Financial products and investments: | | |
| Interest income from financial assets at fair value through profit or loss | 62,814,931 | 318,660 |
| Dividend income from financial assets at fair value through profit or loss | 1,718,781 | – |
| Net realised gain on financial assets at fair value through profit or loss | 1,784,539 | 1,407,009 |
| Net unrealised gain on financial assets at fair value through profit or loss | 832,982 | 60,991 |
| Interest income from available-for-sale financial assets | 69,785,642 | 6,828,148 |
| Net realised (loss) gain on available-for-sale financial assets | (22,201,045) | 1,760,729 |
| Net realised loss on derivatives | (12,139,414) | – |
| Net unrealised gain on derivatives | 2,939,547 | – |
| Net unrealised gain on financial liabilities at fair value through profit or loss | 192,000 | – |
| | 105,727,963 | 10,375,537 |
| | 358,380,046 | 168,815,936 |

Other Income

| | 2017 HK\$ | 2016 HK\$ |
|---|------------------|------------------|
| Interest income from financial institutions | 7,723,346 | 2,519,875 |
| Sundry income | 98,931 | 508,455 |
| | 7,822,277 | 3,028,330 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

4. SEGMENT REPORTING

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group's operations are located in Hong Kong.

During the period ended 30 June 2017, the Group expanded its business by investing in funds, debt and equity securities. After reorganization of business, the new reportable and operating segments under HKFRS 8 are as follow:

Brokerage – provision of securities, futures and options, insurance brokerage and other services;

Loans and financing – provision of margin financing and secured or unsecured loans to customers;

Investment banking – provision of financial advisory, sponsor, placing and underwriting services of debt and equity securities;

Asset management – provision of fund management, discretionary account management (previously named wealth management) and investment advisory services;

Financial products and investments – proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

The accounting policies of the operating segments are the same as the Group's accounting policies. Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

4. SEGMENT REPORTING (Continued)

For the six months ended 30 June 2017 (Unaudited)

| | Brokerage HK\$ | Loans and financing HK\$ | Investment banking HK\$ | Assets management HK\$ | Financial products and investments HK\$ | Eliminations HK\$ | Consolidated HK\$ |
|---|-------------------|--------------------------------|-------------------------------|------------------------------|--|----------------------|----------------------|
| Segment revenue and result | | | | | | | |
| Revenue from external customers | 82,933,807 | 143,935,536 | 19,484,759 | 6,297,981 | - | - | 252,652,083 |
| Net gains on financial products and investments | - | - | - | - | 105,727,963 | - | 105,727,963 |
| Inter-segment revenue | 478,757 | - | - | 625,000 | - | (1,103,757) | - |
| Segment revenue and net gains on financial products and investments | 83,412,564 | 143,935,536 | 19,484,759 | 6,922,981 | 105,727,963 | (1,103,757) | 358,380,046 |
| Revenue presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 358,380,046 |
| Segment results | 29,589,259 | (16,778,170) | 5,809,612 | 141,443 | 60,837,677 | - | 79,599,821 |
| Unallocated expenses | | | | | | | (9,392,205) |
| Profit before taxation presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 70,207,616 |
| Other segmental information included in the measure of segment results | | | | | | | |
| Depreciation | 527,014 | - | 770 | 7,671 | - | - | 535,455 |
| Unallocated: | | | | | | | 2,794,550 |
| | | | | | | | 3,330,005 |
| Amortisation | 176,277 | - | 250 | - | - | - | 176,527 |
| Unallocated: | | | | | | | 347,362 |
| | | | | | | | 523,889 |
| Interest income | 6,309,949 | 143,936,007 | 31,713 | 615 | 132,601,296 | - | 282,879,580 |
| Unallocated: | | | | | | | 1,379,875 |
| | | | | | | | 284,259,455 |
| Interest expenses | 141,182 | 22,246,336 | - | - | 71,794,992 | (28,350,545) | 65,831,965 |
| Dividend income | - | - | - | - | 1,718,781 | - | 1,718,781 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

4. SEGMENT REPORTING (Continued)

For the six months ended 30 June 2016 (Unaudited)

| | Brokerage HK\$ | Loans and financing HK\$ | Investment banking HK\$ | Assets management HK\$ | Financial products and investments HK\$ | Eliminations HK\$ | Consolidated HK\$ |
|---|-------------------|--------------------------------|-------------------------------|------------------------------|--|----------------------|----------------------|
| Segment revenue and result | | | | | | | |
| Revenue from external customers | 47,232,109 | 103,129,556 | 5,047,786 | 3,030,948 | - | - | 158,440,399 |
| Net gains on financial products and investments | - | - | - | - | 10,375,537 | - | 10,375,537 |
| Inter-segment revenue | 16,785 | - | 919,500 | - | - | (936,285) | - |
| Segment revenue and net gains on financial products and investments | 47,248,894 | 103,129,556 | 5,967,286 | 3,030,948 | 10,375,537 | (936,285) | 168,815,936 |
| Revenue presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 168,815,936 |
| Segment results | 5,553,902 | 44,089,081 | 1,143,853 | (782,567) | 303,409 | - | 50,307,678 |
| Unallocated expenses | | | | | | | (30,976,108) |
| Profit before taxation presented in the condensed consolidated statement of profit or loss and other comprehensive income | | | | | | | 19,331,570 |
| Other segmental information included in the measure of segment results | | | | | | | |
| Depreciation | 1,895,822 | - | 3,700 | 10,381 | - | - | 1,909,903 |
| Unallocated: | | | | | | | 1,855,059 |
| | | | | | | | 3,764,962 |
| Amortisation | 149,055 | - | 250 | - | - | - | 149,305 |
| Unallocated: | | | | | | | 323,706 |
| | | | | | | | 473,011 |
| Interest income | 2,291,561 | 103,129,917 | 1,448 | 1,157 | 7,146,808 | - | 112,570,891 |
| Unallocated: | | | | | | | 225,348 |
| | | | | | | | 112,796,239 |
| Interest expenses | 476,763 | 22,756,133 | - | - | 7,170,085 | (3,524,290) | 26,878,691 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

4. SEGMENT REPORTING *(Continued)*

Information about major customers

No single customer contributes 10% or more to the Group's revenue from external customers for both periods.

5. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

Staff costs (including directors' remuneration)

Salaries and bonuses

Contribution to the MPF Scheme

Other staff costs

Legal and professional fee

Minimum operating lease payments

Amortisation of intangible assets

Depreciation of property and equipment

Maintenance fee

Other gains or losses

Exchange (gain) loss

Other gain

Loss (gain) on disposal of property and equipment

For the six months ended 30 June

| 2017 HK\$ Unaudited | 2016 HK\$ Unaudited |
|---------------------------|---------------------------|
| 78,886,571 | 52,659,945 |
| 77,430,749 | 51,433,045 |
| 1,063,357 | 825,966 |
| 392,465 | 400,934 |
| 2,616,388 | 356,566 |
| 15,409,716 | 10,672,298 |
| 523,889 | 473,011 |
| 3,330,005 | 3,764,962 |
| 5,389,020 | 5,850,564 |
| (52,457,903) | 679,472 |
| (50,888,077) | 688,922 |
| (1,570,910) | - |
| 1,084 | (9,450) |

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***6. TAXATION**

Hong Kong Profits Tax:
Current period

Deferred tax:
Current period

For the six months ended 30 June

| 2017 | 2016 |
|-------------------|-----------|
| HK\$ | HK\$ |
| Unaudited | Unaudited |
| 10,965,737 | 5,608,939 |
| (378,136) | (529,244) |
| 10,587,601 | 5,079,695 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits throughout the relevant periods.

7. DIVIDEND

For the period ended 30 June, 2017, a final dividend of HK\$0.02 per share in respect of the year ended 31 December 2016 (2016: Nil) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$80,000,000 (2016: Nil).

The Board did not declare the payment of interim dividend for the six months ended 30 June 2017 (2016: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | For the six months ended 30 June | |
|---|----------------------------------|---------------------------|
| | 2017 HK\$ Unaudited | 2016 HK\$ Unaudited |
| Earnings (HK\$) | | |
| Earnings for the purpose of basic earnings per share: | | |
| Profit for the period attributable to owners of the Company | 59,620,015 | 14,251,875 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share assuming that the capitalisation issue described in Appendix IV in the Prospectus had been effective on 1 January 2014 | 4,000,000,000 | 1,412,574,080 |

For each of the six months ended 30 June 2017 (unaudited) and 30 June 2016 (unaudited), there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|--|---|---|
| Held for trading | | |
| Equity securities | | |
| – Listed in Hong Kong | 65,191,918 | – |
| Debt securities (<i>note a</i>) | | |
| – Listed in Hong Kong | 631,803,633 | 342,441,286 |
| – Listed outside Hong Kong | 313,146,605 | 362,192,298 |
| – Unlisted | 23,831,176 | 189,548,233 |
| Unlisted preference shares | 241,948,800 | – |
| | 1,275,922,132 | 894,181,817 |
| Designated at fair value through profit or loss | | |
| Convertible bonds | | |
| – Listed in Hong Kong | 152,088,097 | 55,012,073 |
| – Listed outside Hong Kong | – | 20,809,809 |
| – Unlisted | – | 16,648,452 |
| Investment funds | | |
| – Unlisted | 179,208,722 | – |
| Unlisted fund-linked note (<i>note b</i>) | – | 695,295,000 |
| Unlisted credit-linked notes (<i>note c</i>) | 48,788,585 | 121,955,516 |
| | 380,085,404 | 909,720,850 |
| | 1,656,007,536 | 1,803,902,667 |

Notes:

- (a) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK\$131,287,663 (2016: Nil) at 30 June 2017, to a non-bank financial institution and entered into total return swap contract, whereby the Group received cash flow arising from transferred debt securities and receives the debt securities upon maturity of the contracts, during the period ended 30 June 2017. The transferred debt securities were not derecognized and are continued to be recognised on the unaudited condensed consolidated statement of financial position at 30 June 2017 as the Group retains significant risks and rewards of the transferred debt securities.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: *(Continued)*

- (b) During the year ended 31 December 2016, the Group purchased an unlisted fund-linked note with nominal amount of US\$90,000,000 issued by a non-bank financial institution. The return of the fund-linked note was linked to the net asset value of the underlying asset which was a private equity fund, reported by fund administrator. The fund-linked note was redeemed during the period ended 30 June 2017.
- (c) During the year ended 31 December 2016, the Group purchased unlisted credit-linked notes issued by a non-bank financial institution. The return of the credit-linked notes are linked to the fair value of the underlying assets which are listed preference shares.

Details of disclosure for fair value measurement are set out in note 20.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|-------------------------------|--|---|
| Non-current | | |
| Measured at fair value: | | |
| Debt securities <i>(note)</i> | | |
| – Listed in Hong Kong | 2,252,050,188 | 2,321,841,771 |
| – Listed outside Hong Kong | 1,106,493,442 | 808,811,179 |
| – Unlisted | 359,395,430 | 50,697,821 |
| | 3,717,939,060 | 3,181,350,771 |
| Investment funds | | |
| – Unlisted | 9,824,960 | – |
| | 3,727,764,020 | 3,181,350,771 |

Note: Included in the portfolio of debt securities, the Group transferred debt securities, with a fair value of HK\$1,087,865,911 (31 December 2016: HK\$348,806,325) at 30 June 2017, to non-bank financial institutions and entered into total return swap contracts, whereby the Group receives cash flow arising from the transferred debt securities and receives the debt securities upon maturity of the contracts, during the period ended 30 June 2017. The transferred debt securities were not derecognised and are continued to be recognised on the unaudited condensed consolidated statement of financial position at 30 June 2017 as the Group retains significant risks and rewards of the transferred debt securities.

Details of disclosure for fair value measurement are set out in note 20.

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***11. LOANS RECEIVABLE**

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|-----------------------------|--|---|
| Fixed-rate loans receivable | 74,900,000 | 75,400,000 |
| Analyses as: | | |
| Current | 71,900,000 | 73,400,000 |
| Non-current | 3,000,000 | 2,000,000 |
| | 74,900,000 | 75,400,000 |

The exposure of the Group's fixed-rate loans receivable to interest rate risks and their contractual maturity dates are as follows:

Fixed-rate loans receivable denominated in HKD

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|--|--|---|
| | | |
| | Effective interest rate | |
| Within one year | (30 June 2017: 3.00% to 8.25% per annum 31 December 2016: 6.00% to 8.25% per annum) | 73,400,000 |
| In more than one year but not more than two years | (30 June 2017: 6.00% per annum 31 December 2016: 3.00% per annum) | 2,000,000 |
| | 3,000,000 | |
| | 74,900,000 | 75,400,000 |

Majority of the loans receivable are secured by listed securities from the borrowers and cash balance in their cash clients' accounts.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

12. ACCOUNTS RECEIVABLE

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|---|--|---|
| Accounts receivable arising from the business of dealing in securities: | | |
| Clearing house | 21,516,103 | 100,521,588 |
| Cash clients | 73,665,399 | 17,623,497 |
| Secured margin loans | 4,044,756,131 | 3,715,833,985 |
| Less: impairment allowance | (107,347,146) | – |
| Brokers | 3,346,378 | 12,507,183 |
| | 4,035,936,865 | 3,846,486,253 |
| Accounts receivable arising from the business of dealing in futures and options contracts: | | |
| Clearing house | 16,813,676 | 21,400,391 |
| Brokers | 106,422,156 | 148,328,311 |
| | 123,235,832 | 169,728,702 |
| Accounts receivable arising from the business of investment banking | 3,831,352 | 309,472 |
| Accounts receivable arising from the business of asset management | 3,375,305 | 4,092,010 |
| Accounts receivable arising from the business of wealth management: | | |
| Brokers | – | 57,041 |
| Accounts receivable arising from the business of financial products and investments: | | |
| Brokers | 138,469,289 | 69,917,982 |
| | 4,304,848,643 | 4,090,591,460 |

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***12. ACCOUNTS RECEIVABLE** *(Continued)*

The movements in impairment allowances of accounts receivables are as follows:

| | 2017 | 2016 |
|--|--------------------|---------|
| | HK\$ | HK\$ |
| | Unaudited | Audited |
| As at 1 January | – | – |
| Impairment loss charged to profit or loss during the period/year | 107,347,146 | – |
| As at 30 June 2017/ 31 December 2016 | 107,347,146 | – |

One of the Group's margin loan client pledged ordinary shares of a Hong Kong listed company as collateral of its margin loans. Shares in the said listed company has suspended trading on The Hong Kong Stock Exchange since 8 May 2017, and announced that it is under debt restructuring afterwards. As of the date of this report, the margin loan receivable with a carrying amount of HK\$214,694,292 was secured by 2,199,397,460 shares on the said listed company as collateral. The pledged shares value to HK\$923,746,933 based on the closing price on the date of suspension of trading. According to the prudence concept, the Group has made an impairment loss of HK\$107,347,146, which equals to 50% of the carrying amount of HK\$214,694,292, for the period ended 30 June 2017.

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in securities, included in the accounts receivable from cash clients are debtors with a carrying amount of HK\$14,728,752 (31 December 2016: HK\$5,791,160) as at 30 June 2017, which are past due at the end of each reporting period but which the directors of the Company consider not to be impaired as there has not been a significant change in credit quality and a substantial portion of the carrying amount is subsequently settled. The directors of the Company consider full amounts to be recoverable.

The accounts receivable from cash clients with a carrying amount of HK\$58,936,647 (31 December 2016: HK\$11,832,337) are neither past due nor impaired as at 30 June 2017 and the directors of the Company are of the opinion that the amounts are recoverable.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

12. ACCOUNTS RECEIVABLE *(Continued)*

For secured margin loans, as at 30 June 2017 and 31 December 2016, the loans are repayable on demand subsequent to settlement date and carry interest at Hong Kong prime rate plus 3% per annum during the period/year ended 30 June 2017 and 31 December 2016. As at 30 June 2017, secured margin loans of HK\$3,830,061,839 (31 December 2016: HK\$3,715,833,985) are included in "neither past due nor impaired" category, while the remaining secured margin loans of HK\$214,694,292 (31 December 2016: Nil) are included in "impaired accounts receivable" category. The total market value of securities pledged as collateral in respect of the loans to margin clients were approximately HK\$12,069,069,241 (31 December 2016: HK\$13,752,186,000) as at 30 June 2017. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the eligible margin value of securities deposited. Majority of the outstanding balances were secured by sufficient collateral on an individual basis. The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients. Management of the Group has assessed the market value of the pledged securities of each individual customer that has margin shortfall as at the end of each reporting period and considered that appropriate impairment allowance has been made by taking into consideration of subsequent repayment of monies or additional collateral received from clients or their guarantors. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts receivables with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business of investment banking clients, asset management clients and wealth management are determined in accordance with the agreed terms, usually within one year after the service was provided. As at 30 June 2017 and 31 December 2016, these accounts receivable are included in "neither past due nor impaired" category. The management of the Group believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality.

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***12. ACCOUNTS RECEIVABLE** *(Continued)*

Normal settlement terms of accounts receivable from brokers arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date. As at 30 June 2017 and 31 December 2016, these accounts receivable are included in “neither past due nor impaired” category.

The aging analysis of the accounts receivable based on past due dates are as follows:

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|--|--|---|
| Past due (accounts receivable from cash clients): | | |
| 0 – 30 days | 3,978,112 | 1,353,898 |
| Over 30 days | 10,750,640 | 4,437,262 |
| Accounts receivable which were past due but not impaired | 14,728,752 | 5,791,160 |
| Accounts receivable which were neither past due nor impaired | 4,182,772,745 | 4,084,800,300 |
| Impaired accounts receivable | 214,694,292 | – |
| Less: impairment allowance | (107,347,146) | – |
| Net impaired accounts receivable | 107,347,146 | – |
| | 4,304,848,643 | 4,090,591,460 |

In view of the nature of business of dealing in securities, futures and options contracts and financial products and investments, no aging analysis on those accounts receivable is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

12. ACCOUNTS RECEIVABLE *(Continued)*

The following is an aging analysis of accounts receivable arising from the business of investment banking clients and asset management clients net of impairment losses based on date of invoice/contract note at the reporting date:

Investment banking clients

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|-------------------|--|---|
| Less than 31 days | 778,700 | 96,000 |
| 31 – 60 days | – | 100,000 |
| 61 – 90 days | 2,731,680 | 100,000 |
| 91 – 180 days | 307,500 | 13,472 |
| Over 180 days | 13,472 | – |
| | 3,831,352 | 309,472 |

Asset management clients

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|-------------------|--|---|
| Less than 31 days | 969,185 | 908,526 |
| 31 – 60 days | 715,990 | 693,274 |
| 61 – 90 days | 322,566 | 625,247 |
| 91 – 180 days | 736,782 | 663,315 |
| Over 180 days | 630,782 | 1,201,648 |
| | 3,375,305 | 4,092,010 |

During the period/year ended 30 June 2017 (unaudited) and 31 December 2016 (audited), no margin loans were granted to the directors of the Company and directors of the subsidiaries.

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***13. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|-------------------------------------|--|---|
| Held for trading | | |
| Short position in equity securities | 3,054,000 | – |

Details of disclosure for fair value measurement are set out in note 20.

14. ACCOUNTS PAYABLE

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|---|--|---|
| Accounts payable arising from the business of dealing in securities: | | |
| Clearing house | 98,836,394 | 5,860,705 |
| Brokers | 262,305,715 | 2,570,838 |
| Clients | 2,648,916,635 | 3,053,688,931 |
| | 3,010,058,744 | 3,062,120,474 |
| Accounts payable arising from the business of dealing in futures and options contracts: | | |
| Clients | 433,714,392 | 485,149,632 |
| Accounts payable arising from the business of financial products and investments: | | |
| Brokers | 128,857,204 | 253,836,244 |
| Secured margin loans from broker | 625,503,924 | 845,079,922 |
| | 754,361,128 | 1,098,916,166 |
| | 4,198,134,264 | 4,646,186,272 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

14. ACCOUNTS PAYABLE *(Continued)*

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of financial products and investments, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

For secured margin loans from broker, the loans are repayable on demand (except certain balances arising from trades pending settlement or margin deposits) and are interest-bearing at the prevailing market interest rate. Only the amounts in excess of the required margin deposits are repayable on demand. The total market value of debt securities pledged as collateral in respect of the loans was approximately HK\$952,645,122 at 30 June 2017 (31 December 2016: HK\$1,355,444,382).

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***15. BANK BORROWINGS**

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|---|--|---|
| Variable rate borrowings | 4,738,318,748 | 4,142,518,829 |
| Repayable within one year and contain a repayable on demand clause | 4,738,318,748 | 4,142,518,829 |

The bank borrowings consist of loans borrowed by the Group from banks to facilitate investment and general working capital.

The interest rate of the Group's bank borrowings as at 30 June 2017 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.8% to HIBOR+2.3% (31 December 2016: HIBOR+1.5% to HIBOR+2.3%).

At 30 June 2017, HK\$4,738,318,748 (31 December 2016: HK\$4,142,518,829) was drawn by the Group respectively under the aggregated banking facilities of HK\$7,070,000,000 (31 December 2016: HK\$5,470,000,000) of the Group.

The Group's bank borrowings amounting to HK\$628,318,748 as at 30 June 2017 (31 December 2016: HK\$902,518,829) was secured by charges over clients' pledged securities with fair value of approximately HK\$1,796,031,500 (31 December 2016: HK\$2,213,886,600) upon receiving client's authorisation.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

16. OTHER BORROWINGS

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|---|--|---|
| Borrowings associated with transferred assets <i>(note)</i> | 674,850,769 | 177,577,860 |

Note:

The interest rate of the Group's borrowings associated with transferred assets as at 30 June 2017 ranged from fixed interest rate of 2.7% to 3 month London Interbank Offered Rate ("LIBOR") +1.95% (31 December 2016: fixed interest rate of 2.96%).

17. NOTES

| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
|---------------------|--|---|
| Notes <i>(note)</i> | 93,657,600 | – |

Note:

During the period ended 30 June 2017, the Group's wholly owned subsidiary issued guaranteed notes with fixed interest rate of 3% in principal amount of US\$12,000,000 which is guaranteed by the Company. The note will mature in June 2018.

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***18. SHARE CAPITAL**

Details of the movement of share capital are as follows:

| | <i>Note</i> | Number of ordinary shares of HK\$0.10 each | Share capital HK\$ |
|--|-------------|---|-------------------------------|
| Authorised: | | | |
| As at 1 January 2016 | | 490,000,000 | 49,000,000 |
| Increase in authorised share capital | <i>(a)</i> | 2,395,841,579 | 239,584,158 |
| | | <hr/> | <hr/> |
| As at 30 June 2016 | | 2,885,841,579 | 288,584,158 |
| Increase in authorised share capital | <i>(b)</i> | 17,114,158,421 | 1,711,415,842 |
| | | <hr/> | <hr/> |
| As at 31 December 2016, 1 January 2017 and 30 June 2017 | | 20,000,000,000 | 2,000,000,000 |
| | | <hr/> | <hr/> |
| Issued and fully paid: | | | |
| As at 1 January 2016 | | 10,000 | 1,000 |
| Issue of shares pursuant to the Group reorganisation | <i>(c)</i> | 489,990,000 | 48,999,000 |
| Issue of shares to CISI Holdings and pre-IPO investors | <i>(d)</i> | 2,118,811,876 | 211,881,188 |
| Issue of shares under ESPs | <i>(e)</i> | 277,029,703 | 27,702,970 |
| | | <hr/> | <hr/> |
| As at 30 June 2016 | | 2,885,841,579 | 288,584,158 |
| Capitalisation issue of shares | <i>(f)</i> | 114,158,421 | 11,415,842 |
| Issue of shares through IPO upon listing | <i>(g)</i> | 1,000,000,000 | 100,000,000 |
| | | <hr/> | <hr/> |
| As at 31 December 2016, 1 January 2017 and 30 June 2017 | | 4,000,000,000 | 400,000,000 |
| | | <hr/> | <hr/> |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

18. SHARE CAPITAL (Continued)

Notes:

- (a) Pursuant to the written resolution of the sole shareholder of the Company passed on 26 April 2016, the authorised share capital of the Company was increased from HK\$49,000,000 to HK\$288,584,158 divided into 2,885,841,579 shares of a par value of HK\$0.1 each.
- (b) Pursuant to the written resolution of the shareholders of the Company passed on 27 July 2016, the authorised share capital of the Company was increased from HK\$288,584,158 to HK\$2,000,000,000 divided into 20,000,000,000 shares of a par value of HK\$0.1 each.
- (c) On 22 January 2016, 489,990,000 paid shares of HK\$0.1 were issued to CISI Holdings pursuant to the Group Reorganisation.
- (d)
 - (i) On 26 April 2016, the Company issued 1,485,148,514 ordinary shares of HK\$1.01 each with a par value of HK\$0.1 each at a cash consideration of HK\$1,499,999,999 to CISI Holdings. All new shares issued rank pari passu in all respects with the then existing shares.
 - (ii) On 26 April 2016, the Company issued 633,663,362 shares of HK\$1.01 each with a par value of HK\$0.1 each, credited as fully paid, for cash consideration of HK\$639,999,996 to the pre-IPO investors. Details of the introduction of pre-IPO investors are set out in section headed "Introduction of Pre-IPO Investors" in the Prospectus. All new shares issued rank pari passu in all respects with the then existing shares.
- (e) An employee share participation scheme ("ESPS") has been adopted by Industrial Securities (Hong Kong) for the purpose of incentivising the employees of the Group and to align the interest of the management team of the Group with those of the shareholders of the Company. On 26 April 2016, the Company issued 277,029,703 ordinary shares of HK\$1.01 each under the employee share participation scheme at a total cash consideration of HK\$279,800,000. All new shares issued rank pari passu in all respects with the then existing shares. The shares issued and allotted pursuant to the ESPS ("ES Shares") are held in a trust. The ES Shares are subject to a lock-up period of twelve months and may be either (i) sold; or (ii) distributed from the trust to the selected employees or directors ("eligible participants") under the ESPS, by reference to each eligible participants' proportional initial contribution of the total consideration paid for the ES Shares. The Company engaged an independent valuer to conduct valuation of such transactions. Based on the valuation report prepared by such independent valuer, as at 26 April 2016 (being the date of the grant of ES Shares), the estimated fair value per ES Share is HK\$1.00. In light of such estimated fair value and on the basis that the subscription price per ES Share is HK\$1.01, the directors of the Company consider that the transactions do not have material financial impact on the Group's financial performance and financial position. Details of the ESPS are set out in note 33(b) and section headed "History, Reorganisation and Group Structure" in the Prospectus.
- (f) Pursuant to the written resolutions passed by the shareholders on 27 July 2016, a sum of HK\$11,415,842.1 standing to the credit of the share premium account of the Company was capitalised by paying up in full at par a total of 114,158,421 new shares and for allotment and issue to CISI Holdings and pre-IPO investors (the "Capitalisation Issue").
- (g) On 20 October 2016, the Company issued 1,000,000,000 shares at HK\$1.33 per share pursuant to the initial public offering of the Company's shares for a total gross proceeds of HK\$1,330,000,000. The proceeds will be used to finance the implementation of the business plans as set forth in the section headed "Future Plan and Use of Proceeds" of the Prospectus.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

19. EMPLOYEE SHARE PARTICIPATION SCHEME

On 25 April 2016, Industrial Securities (Hong Kong) adopted an ESPS (as defined in note 18(e)) to incentivise eligible participants for their contributions to the Group and to attract suitable personnel for further development of the Group.

Pursuant to the Scheme, the Company issued and allotted a total of 277,029,703 ES Shares (as defined in note 18(e)) for a total consideration of HK\$279,800,000 (being the total award price (the "Award Price")) for award of the ES Shares which has been irrevocably settled on 26 April 2016.

No expenses is recognised in the consolidated financial statements for the period/year ended 30 June 2017 and 31 December 2016 as the fair value of ES shares at grant date was approximate to the Award Price.

20. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: Market risk (including interest rate risk, foreign exchange risk and other price risk), credit risk and liquidity risk.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016.

There has been no change in the risk management policies during the current period.

Fair value measurement of financial instruments

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs are unobservable inputs for the asset or liability.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

20. FINANCIAL INSTRUMENTS (Continued)

Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 30 June 2017 and 31 December 2016.

Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|-----------------------------------|-------------------------------------|----------------------|---|
| | 30 June 2017 HK\$ Unaudited | 31 December 2016 HK\$ Audited | | |
| 1) Financial assets held for trading | | | | |
| Equity securities | | | | |
| – Listed on stock exchange | 65,191,918 | – | Level 1 | Quoted price in active markets |
| Debt securities | | | | |
| – Listed on stock exchanges | 944,950,238 | 704,633,584 | Level 1 | Quoted price in active markets |
| – Unlisted | 23,831,176 | 189,548,233 | Level 2 | Quoted from market makers |
| Unlisted preference shares | 241,948,800 | – | Level 2 | Recent transaction prices |
| | 1,275,922,132 | 894,181,817 | | |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

20. FINANCIAL INSTRUMENTS (Continued)

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key input(s) |
|--|-----------------------------------|-------------------------------------|----------------------|---|
| | 30 June 2017 HK\$ Unaudited | 31 December 2016 HK\$ Audited | | |
| 2) Financial assets designated at fair value through profit or loss | | | | |
| Convertible bonds | | | | |
| – Listed on stock exchange | 152,088,097 | 75,821,882 | Level 1 | Quoted price in active markets |
| – Unlisted | – | 16,648,452 | Level 2 | Quoted from market makers |
| Investment funds | | | | |
| – Unlisted | 179,208,722 | – | Level 2 | Quoted from market makers |
| Unlisted fund-linked note | – | 695,295,000 | Level 2 | Recent transaction prices |
| Unlisted credit-linked notes | 48,788,585 | 121,955,516 | Level 2 | Quoted price of preference shares |
| | 380,085,404 | 909,720,850 | | |
| 3) Available-for-sale financial assets | | | | |
| Debt securities | | | | |
| – Listed on stock exchanges | 3,358,543,630 | 3,130,652,950 | Level 1 | Quoted price in active markets |
| – Unlisted | 359,395,430 | 50,697,821 | Level 2 | Quoted from market makers |
| Investment funds | | | | |
| – Unlisted | 9,824,960 | – | Level 2 | NAV of the funds |
| | 3,727,764,020 | 3,181,350,771 | | |
| Financial Liabilities | | | | |
| 4) Financial liabilities held for trading | | | | |
| Short position in equity securities | 3,054,000 | – | Level 1 | Quoted price in active markets |

There were no transfers between Level 1 and 2 during the period/year ended 30 June 2017 and 31 December 2016.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

20. FINANCIAL INSTRUMENTS (Continued)

Derivative financial instruments

| | Notional Amount | | Fair Value | | | |
|--|---|---|---|---|---|---|
| | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited | Assets | | Liabilities | |
| | | | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited | As at 30 June 2017 HK\$ Unaudited | As at 31 December 2016 HK\$ Audited |
| Interest rate derivatives – interest rate futures | 1,110,712,600 | 1,404,387,743 | 2,939,547 | 262,641 | – | – |
| Total | 1,110,712,600 | 1,404,387,743 | 2,939,547 | 262,641 | – | – |
| Less: Settlement | | | (2,939,547) | (262,641) | – | – |
| Net position | | | – | – | – | – |

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in treasury futures traded through China Industrial Securities International Futures Limited, were settled daily with the broker. Accordingly, the net position of the above derivative contracts was nil as at 30 June 2017 and 31 December 2016.

21. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the notes to the unaudited condensed consolidated financial statements, the Group had the following material transactions with related parties.

(a) Compensation of key management personnel

The remuneration of key management during the periods ended 30 June 2017 and 2016 was as follows:

| | For the six months ended 30 June | |
|--------------------------------|----------------------------------|---------------------------|
| | 2017 HK\$ Unaudited | 2016 HK\$ Unaudited |
| Salary and short-term benefits | 9,340,889 | 8,131,804 |
| Post-employment benefits | 63,000 | 63,000 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

21. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Right of trading of RMB denominated securities in the PRC

During the periods ended 30 June 2017 and 2016, the Group invests in RMB denominated securities in the PRC using the approved quota under the PRC RMB Qualified Foreign Institutional Investor program of the intermediate holding company for consideration of HK\$1 per annum.

(c) Consultancy services from a fellow subsidiary

For the period from 1 January 2016 to 30 June 2016, the total costs incurred by Industrial Securities Consultancy Service (Shenzhen) Company Limited ("Industrial Securities (Shenzhen)") for provision of the services mentioned above to the Group amounted to HK\$2,011,411 on the basis of actual costs incurred by Industrial Securities (Shenzhen), which is regarded as deemed capital contributed from Industrial Securities (Hong Kong).

Pursuant to service agreement entered into between the Company and Industrial Securities (Shenzhen), dated 27 September 2016 (the "Service Agreement"), Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%. During the period ended 30 June 2017, the Company paid a service fee of HK\$3,247,101 under the Service Agreement. Details of the Service Agreement are set out in section headed "Connected Transactions" in the Prospectus.

(d) Right of use of trademark

During the periods ended 30 June 2017 and 2016, the Group was granted by the intermediate holding company a non-transferable and non-assignable license to use its registered trademarks for the Group's business and any related businesses for consideration of HK\$1 per annum.

Notes to the Condensed Consolidated Financial Statements*For the six months ended 30 June 2017***22. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY**

In May 2017, the Group acquired approximately 38.45% of issued units of CIS Excellent Select Fund Segregated Portfolio ("Excellent") for consideration of HK\$39,880,000.

Consideration transferred

| | HK\$ |
|------|------------|
| Cash | 39,880,000 |

Assets acquired and liabilities recognised at the date of acquisition

| | |
|-----------------------------------|--------------------|
| Bank | 90,361,196 |
| Financial assets held for trading | 57,032,087 |
| Payables | (43,673,867) |
| | <u>103,719,416</u> |

Net assets acquired at the date of acquisition attributable to the Group

| | |
|---|---------------|
| Net assets acquired at the date of acquisition | 103,719,416 |
| Proportion of the Group's interest | <u>38.45%</u> |

| | |
|---|-------------------|
| Net assets acquired at the date of acquisition attributable to the Group | <u>39,880,000</u> |
|---|-------------------|

Third-party interests at the acquisition date were measured at the proportionate share of the fair value of identifiable net assets of Excellent, which are reflected as other liability in the unaudited condensed statement of financial position.

As the acquisition date, included in the financial assets held for trading represents the listed equity securities with the quoted market price.

Net cash inflow on acquisition of a consolidated structured entity

| | |
|--|-------------------|
| Cash and cash equivalent balances acquired | 90,361,196 |
| Less: consideration paid in cash | (39,880,000) |
| | <u>50,481,196</u> |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

23. INTEREST IN CONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including asset management products. For the asset management products where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management products that is of such significance that it indicates that the Group is a principal.

Third-party interests in consolidated structured entities consist of third-party unit/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

As at 30 June 2017, the third-party interests in the consolidated structured entities of the Group amounted to HK\$53,617,055 (31 December 2016: Nil) and presented in the unaudited condensed consolidated statement of financial position.

Management Discussion and Analysis

RESULTS AND OVERVIEW

We are pleased to present to the shareholders of the Company that the Group recorded profit after tax of HK\$59.6 million (2016: HK\$14.3 million) for the six months ended 30 June 2017, representing a year-on-year increase of 318.3%, and the total comprehensive income of HK\$79.9 million (2016: HK\$26.7 million), representing a year-on-year increase of 199.5%.

During the period under review, the businesses of brokerage services, loans and financing, investment banking, asset management, financial products and investments of the Group all recorded substantial growth, and the corresponding operating revenue from the aforesaid businesses increased by 75.6%, 39.6%, 286.0%, 107.8% and 919.0% for the six months ended 30 June 2017, respectively.

The substantial increase in such revenue was mainly due to the relatively active securities market sentiment in Hong Kong in the first half of 2017, during which the client assets increased significantly and the Group's capital strength improved substantially as a result of capital increase and completion of the initial public offering in 2016.

ANALYSIS ON PRINCIPAL BUSINESSES

(I) Policy review

2017 is the 20th anniversary of Hong Kong's return to the motherland. The central government has been continuing to devote greater efforts to introduce more policies to support the development of Hong Kong. In March, Li Keqiang, the Premier of the State Council of the PRC, disclosed that the state was preparing to initiate "Bond Connect" between Hong Kong and mainland China in 2017. In May, the People's Bank of China (the central bank) and Hong Kong Monetary Authority issued a joint notice by which the initiative of "Bond Connect" between Hong Kong and mainland China was approved. In particular, both parties agreed to open the "Northbound Connect" at the preliminary stage, and would consider to extend to the "Southbound Connect" in due course in future. The "Bond Connect" will provide new opportunities for the development of Hong Kong bonds market, thereby consolidating and strengthening the position of Hong Kong as an international financial centre.

In June 2017, the government of the Hong Kong Special Administrative Region and the Ministry of Commerce of the RPC signed the "Investment Agreement" and the "Economic and Technological Cooperation Agreement" under the framework of the "Closer Economic Partnership Arrangement" (CEPA). The "Economic and Technological Cooperation Agreement" is related to financial cooperation and other key fields, which lays a good foundation and provides a specific direction for deepening the cooperation between Hong Kong and mainland China in the future.

(II) Macro environment

In the first half of 2017, the global economy continued to grow moderately. The US unemployment rate dropped from 4.8% in January to 4.4% in June, while 4.3% in May hit a 16-year low since 2001. In Eurozone, the economy also continued to grow moderately, and the political risks have gradually reduced subsequent to the general election in Netherlands and France. Chinese economy ran within a reasonable range as evidenced by the 6.9% GDP growth in the first half of 2017. Meanwhile, the country further promoted the supply-side structural reform which obviously showed a stable and positive trend.

Along with the stable recovery of the major global economies, Hong Kong's economy also gradually improved. In the first half of 2017, the interest rate of Hong Kong dollar still remained at a low level. However, the US has entered an interest rate hike cycle, the interest rate of Hong Kong dollar is expected to be increased accordingly under the Linked Exchange Rate System.

Management Discussion and Analysis

(III) Market

In the first half of 2017, the Shanghai SSE Index slightly rose by 2.9%, and the Shenzhen SSE Composite Index dropped by 3.6%. Under the background of improved performance of technology stocks in the US, Dow Jones Index, S & P 500 Index and Nasdaq Index went up by 8.0%, 8.2% and 14.1%, respectively.

The increased US stock market valuation and the weak US dollar induced capital to flow back, hence drove an active securities market in Hong Kong. In the first half of 2017, the Hang Seng Index increased by 17.1% which was one of the best performances among the major global indexes. For the first six months of 2017, the average daily turnover was HK\$76.03 billion, representing an increase of 12.6% from HK\$67.52 billion for the corresponding period of 2016. The funds raised from the initial public offerings amounted to HK\$53.60 billion, representing an increase of 23.1% from HK\$43.55 billion for the corresponding period of 2016. There were 72 newly listed companies, representing an increase of 80.0% from 40 companies for the corresponding period of 2016 (including listed companies transferred from the Growth Enterprise Market to the Main Board).

(IV) Business review

The Group's operating revenue mainly derives from: (i) brokerage; (ii) loans and financing; (iii) investment banking; (iv) asset management; and (v) financial products and investments. Mainly driven by the robust development of the brokerage business, loans and financing business, financial products and investments, the operating revenue of the Group significantly increased by 112.3% to HK\$358.4 million for the six months ended 30 June 2017 (2016: HK\$168.8 million).

Brokerage

For the six months ended 30 June 2017, the Group recorded a year-on-year increase of 75.6% in commission and fee income from brokerage service to HK\$82.9 million (2016: HK\$47.2 million).

In the first half of 2017, the increment of Hong Kong stock market was ranked the top among the global stock markets with an increased average daily turnover. For the six months ended 30 June 2017, the Group recorded a satisfactory increase of 88.8% in the revenue of commission and fee from securities brokerage. Such increase was due to the strong performance of Hong Kong stock market, as well as the continuing increase in the number of clients and client assets resulting from the Group's implementation of multi-channel marketing methods.

Loans and financing

The Group's revenue from loans and financing business maintained steady growth. The revenue increased by 39.6% to HK\$143.9 million for the six months ended 30 June 2017 (2016: HK\$103.1 million).

The increase in the revenue from loans and financing business was attributable to the improved lending capacity of the Group due to capital growth, and the expansion of brokerage business and the increase of clients' financing requirements. The Group will continue keeping risks under control and exercising caution when sustaining steady growth in loans and financing business.

Management Discussion and Analysis

Investment banking

For the six months ended 30 June 2017, the Group's revenue from investment banking business significantly increased by 286.0% to HK\$19.5 million (2016: HK\$5.0 million).

In the first half of 2017, the total equity funding in Hong Kong securities market (including proceeds from the initial public offerings) amounted to HK\$168.61 billion, representing an increase of 16.3% from HK\$144.98 billion for the corresponding period of 2016. For the six months ended 30 June 2017, the Group completed 24 placing and underwriting projects, which assisted corporations to raise funds amounting to HK\$966.7 million in the secondary market in Hong Kong.

Meanwhile, in the first half of 2017, especially the first quarter, the size of financing carried out by enterprises from mainland China by the way of overseas bond issue experienced an exponential growth. The Group promptly seized such opportunity after the commencement of the fixed income business and the formation of a team in this regard in the second half of 2016. Up to 30 June 2017, the Group completed five bond issue and underwriting projects.

Asset management

For the six months ended 30 June 2017, the Group's revenue from asset management business increased by 107.8% to HK\$6.3 million (2016: HK\$3.0 million).

As the Federal Reserve System has entered the interest rate hike cycle, and the volatility of the exchange rate of Renminbi has expanded, the needs of institutional clients, corporate clients and individual clients in mainland China for overseas asset allocation also have increased. The Group has consolidated investment capabilities in various asset classes, and introduced the product in single asset class as well as multi-asset class portfolio, to satisfy clients' requirements in respect of risks and return. The Group will further enhance our capability of research and investment management in the future, so as to steadily and gradually develop our asset management platform.

Financial products and investments

For the six months ended 30 June 2017, the Group's revenue from financial products and investments business sharply increased by 919.0% to HK\$105.7 million (2016: HK\$10.4 million).

In the first half of 2017, the Group continued to maintain a steady investment style for our financial products and investments business, in which the investment portfolio mainly comprised fixed income products, including investment grade US dollar debt securities that deliver stable interest income and non-investment grade debt securities with higher return potentials and issued by companies which we have in-depth understanding after applying strict credit selection process. The Group has adopted proper interest rate hedge measures to hedge against risks by purchasing the US treasury bond futures and other related instruments. Meanwhile, the Group captured market opportunities to invest in certain equity products including public funds, private funds and discretionary portfolios, as well as stocks and financial derivatives for hedging purpose.

Management Discussion and Analysis

Financial positions

As at 30 June 2017, the total assets of the Group increased by 5.9% to HK\$14,194.1 million (31 December 2016: HK\$13,398.1 million). As at 30 June 2017, the total liabilities of the Group increased by 8.7% to HK\$9,899.9 million (31 December 2016: HK\$9,103.8 million).

Liquidity, financial resources and capital structures

As at 30 June 2017, the net current assets of the Group decreased by 51.5% to HK\$526.4 million (31 December 2016: HK\$1,085.7 million). As at 30 June 2017, the current ratio of the Group (defined as current assets divided by current liabilities as at the end of the respective financial year/period) was 1.1 times (31 December 2016: 1.1 times).

For the six months ended 30 June 2017, the net cash inflows of the Group were HK\$448.6 million (2016: HK\$1,010.4 million). As at 30 June 2017, the bank balances of the Group were HK\$1,421.5 million (31 December 2016: HK\$972.9 million).

As at 30 June 2017, the Group had bank and other borrowings of HK\$5,413.2 million (31 December 2016: HK\$4,320.1 million), representing an increase of 25.3%. As at 30 June 2017, the notes outstanding of the Group were HK\$93.7 million (details are set out in note 17 to the unaudited condensed consolidated financial statements). As at 30 June 2017, the gearing ratio of the Group (defined as bank and other borrowings and notes outstanding divided by total equity) increased to 128.2% (31 December 2016: 100.6%).

The capital of the Group comprises only ordinary shares. Total equity attributable to owners of the Company amounted to HK\$4,294.2 million as at 30 June 2017 (31 December 2016: HK\$4,294.3 million).

Prospects and future plan

In the second half of 2017, the global economy will face uncertainties arising from the US macro policy, the progress of Brexit and the geopolitical conflicts. Meanwhile, it is expected that the Federal Reserve Board will conduct balance sheet reduction in the second half of 2017 at the earliest, and the European Central Bank will gradually normalise its monetary policy, both of which may have a big impact on the global economic and financial situation. In addition to facing such external uncertainties, Chinese macro economy should continue to strike a balance between financial deleveraging and steady economic growth, so as to promote the supply-side structural reform.

In the second half of 2017, Hong Kong economy and securities market will also face uncertainties for the impact of external factors. While strengthening compliance and risk control management, the Group will be committed to expanding the base of institutional clients, corporate clients and high-net-worth clients through multi-channel marketing methods; and enhancing the synergistic cooperation among each business line, to provide comprehensive, diverse and customized financial services to customers. The Group will continue to promote the development of each business line in a steady manner, and will enhance the diversity of revenue sources while improving operating revenue. In particular, the Group will strengthen the securities and futures brokerage business; keeping risks under control, continue to develop the financial products and investments business, including continuous facilitation of the businesses of structured product issue and private equity investments; accelerate the development of the asset management business; and promote the corporate finance and institutional sales business.

Management Discussion and Analysis

Use of proceeds

On 20 October 2016, the Group listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. A total of 1,000,000,000 shares were offered under the global offering at an offer price of HK\$1.33 per share. The net proceeds (net of issuance expenses) amounted to HK\$1,288.2 million.

As disclosed in the prospectus, approximately 40% of the net proceeds from listing would be used for expansion of the loans and financing business; approximately 20% would be used for development of the proprietary trading business, primarily for investment in fixed-income assets; approximately 10% would be used for development of the new capital-based intermediary business; approximately 8% would be used for development of the asset management business; approximately 8% would be used for development of the investment banking business; approximately 4% would be used for development of the institutional sales capabilities, including hiring experienced sales personnel; the remaining amount, or approximately 10% would be used for working capital and other general corporate purposes.

As at 30 June 2017, 36.0% or HK\$463.8 million of the proceeds from listing were used for expansion of the loans and financing business; 10.0% or HK\$128.8 million were used for business operation; 20.0% or HK\$257.6 million were used for development of proprietary trading business; 0.54% or HK\$6.9 million were used for development of investment banking business; 0.43% or HK\$5.6 million were used for development of asset management business; 33.0% or HK\$425.5 million were bank deposits. The Group will apply the proceeds to various businesses gradually as planned in accordance with the requirements set out in the prospectus.

Significant acquisition or disposal of subsidiaries and affiliated companies

There were no significant acquisitions or disposals of subsidiaries and affiliated companies by the Group during the six months ended 30 June 2017.

As at 30 June 2017, the Group did not hold any significant investments.

Charges on Group assets

For the six months ended 30 June 2017, the Group's asset pledged was mainly debt securities pledged as collaterals for other borrowings or margin loans from broker. For details please refer to note 9, 10 and 14 of the notes to unaudited condensed consolidated financial statements.

Employee information

As at 30 June 2017, the Group had 144 full-time employees (30 June 2016: 120 full-time employees), including the Directors. Total remuneration for the six months ended 30 June 2017 was HK\$78.9 million (2016: HK\$52.7 million). Such increase was mainly attributable to the growth in staff salaries and bonus due to adjustment of workforce structure and increase in number of employees.

Contingent liabilities

The Group did not have any material contingent liability in the six months ended 30 June 2017 and to the date of this report.

Management Discussion and Analysis

Event after the reporting period

Up to the date of this report, there was no significant event relevant to the business or financial performance of the Group that came to the attention of the Directors after the reporting period.

Risk management

The Group has in place the risk management structure and implemented the compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures for control of exposure to credit, liquidity, market and operational risks during the course of business activities.

Credit risks

The Group has established the risk management committee responsible for reviewing and monitoring the implementation of risk management policies for principal business units, identifying risks, approving trading limit and credit limit, and updating the risk management policies in response to changes;

We have implemented “know-your-client” procedures and credit check to ascertain the background of potential clients. We also perform credit assessment on potential clients especially in our loans and financing business, and require futures brokerage clients and loans and financing clients to provide margin deposit or acceptable collateral (as the case may be) to minimise exposure;

The Group closely monitors the margin ratio and loan-to-value ratio of the loans and financing clients and takes appropriate action to recover or minimise loss where it foresees that the client may default in his or her obligation. For the six months ended 30 June 2017, the Group has made an impairment loss according to the prudence concept. The details are set out in note 12 to the unaudited condensed consolidated financial statements. As the relevant listed company was at the restructuring stage, the Group will pay close attention to the progress of the matter and adopt appropriate measures when necessary;

The senior management and head of business units of the Group regularly review the balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, especially during adverse market movements; and we have established credit policy with respect to the trading limit, credit line and credit period granted to brokerage and loans and financing clients, and we review and revise such policy on an ongoing basis; we conduct regular review in respect of outstanding margin loans to assess exposure to credit risks.

Liquidity risks

The Group has in place liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain our liquidity and financial resources requirements as specified under applicable laws and regulations, such as Financial Resources Rules;

The Group has established a multi-tiers authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. We have authorisation limits in place for any commitment or fund outlay, such as procurement, investments, loans, etc., and we assess the impact of those transactions on the capital level;

The Group meets its funding requirements primarily through bank borrowings from multiple banks. We have also adopted stringent liquidity management measures to ensure we satisfy capital requirements under the applicable laws; and

We have established limits and controls on margin loans and money lending loans on aggregate and individual loan basis.

Management Discussion and Analysis

Market risks

The Group has established policy and procedures to monitor and control the price risk in the ordinary and usual course of business;

Our staff with professional qualification and industry experience in the business units discusses and evaluates the underlying market risks prior to engaging in any such new transaction or launching of any such new business;

The Group reviews market risk limits for certain business lines such as the asset management and financial products and investments business to manage risk and periodically review and adjust our market strategies in response to changes in the business performance, risk tolerance levels and variations in market conditions;

In terms of the financial products and investments business, the Group formulates different selection criteria for bonds and other fixed income products, limit the investment in industries and enterprises with excess capacity and negative news, and track and monitor the trends of macro economy and investment concentration ratio to optimise our investment strategies; we diversify the fixed income investment portfolios, limit the size of investment in relation to any single product, client or type of investment and continually track the changes on the operation, credit rating and solvency of the issuers; and

The Group also assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and capability of revenue generation of different types of bonds and control the investment horizon of debt securities investment; the Group monitors investments on a timely basis, including trading positions, unrealised profit or loss, risk exposure and trading activities and establish mechanisms that set pre-determined points to stop profit or loss on an overall basis or on each individual stock.

Foreign currency risks

The Group's exposure to foreign currency risks is primarily related to transactions denominated in a currency other than Hong Kong dollars. The Group's financial products and investments business primarily comprises bond and other fixed income product investment denominated in US dollars. Despite the fact that the Hong Kong dollar is pegged to the US dollar under the Linked Exchange Rate System, the exchange rate of Hong Kong dollar has been fluctuating in the first half of 2017, the Group will closely monitor the exchange rate trend and adopt hedge measures when appropriate. However, the Group does not expect significant foreign exchange risk arising from US dollar denominated monetary items.

Interest rate risks

The interest rate risks of the Group mainly come from fixed-rate loans receivable and fixed-rate debt securities. For debt securities included in financial assets, the fair value measurement is subject to market interest rate. The Group has adopted the US treasury bond futures and other instruments to hedge against interest rate risks.

The Group may also expose to cash flow interest rate risks primarily arising from bank balances, secured margin loans and bank borrowings which carry interest at prevailing market interest rates;

The management of the Group closely monitors exposure related to interest rate risks and ensures it is maintained at an acceptable level. The Group's exposure to cash flow interest rate risks is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's financial instruments denominated in Hong Kong dollars and US dollars.

Operational risks

The Group has responsible officers in charge of overseeing the day-to-day operations, controlling and monitoring compliance issues and solving dealing problems; they also formulate and update the operational manual for each business function based on regulatory and industrial requirements to standardise our operational procedures and reduce human errors;

The Group sets authorisation hierarchy and procedures for its daily operations, and has surveillance systems to monitor the trading activities of our business units and staff on a real-time basis.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in ordinary shares of HK\$0.1 each of the Company

| Name of Director | Capacity/Nature | No. of Shares held | Approximate percentage |
|------------------|------------------------|--------------------|------------------------|
| Lan Rong | Beneficiary of a trust | 9,263,389 | 0.23% |
| Zhuang Yuanfang | Beneficiary of a trust | 8,131,197 | 0.20% |
| Huang Jinguang | Beneficiary of a trust | 9,263,389 | 0.23% |
| Wang Xiang | Beneficiary of a trust | 8,131,197 | 0.20% |
| Zeng Yanxia | Beneficiary of a trust | 7,204,858 | 0.18% |

Save as disclosed above, as at 30 June 2017, none of the Directors or Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

So far as the Directors and the Chief Executives are aware, as at 30 June 2017, the following persons/corporations (other than a Director or the chief executives of the Company) had interests or short positions in the Shares and the underlying Shares, which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO:

| Name | Nature of Interest | No. of Shares held | Approximate percentage of Shareholding |
|--|------------------------------------|--------------------|--|
| China Industrial Securities International Holdings Limited | Beneficial owner | 2,053,281,644 | 51.33% |
| Industrial Securities (Hong Kong) Financial Holdings Limited <i>(Note 1)</i> | Interest of controlled corporation | 2,053,281,644 | 51.33% |
| Industrial Securities Co., Ltd.* <i>(Note 2)</i> | Interest of controlled corporation | 2,053,281,644 | 51.33% |
| Harvest Capital Management Co., Ltd <i>(Note 3)</i> | Investment manager | 293,232,000 | 7.33% |
| Harvest Fund Management Co., Ltd. <i>(Note 3)</i> | Interest of controlled corporation | 293,232,000 | 7.33% |
| China Credit Trust Co., Ltd. <i>(Note 3)</i> | Interest of controlled corporation | 293,232,000 | 7.33% |
| Intelligence Creation International Limited <i>(Note 4)</i> | Settlor of a trust | 287,988,473 | 7.20% |
| Equity Trustee Limited <i>(Note 5)</i> | Trustee | 287,988,473 | 7.20% |
| Intelligence Creation Value Limited <i>(Note 6)</i> | Beneficial owner | 287,988,473 | 7.20% |
| Hao Kang Financial Holdings (Group) Limited | Beneficial owner | 205,853,089 | 5.15% |
| ApexTrade Holdings Limited | Interest of controlled corporation | 205,853,089 | 5.15% |

Other Information

| Name | Nature of Interest | No. of Shares held | Approximate percentage of Shareholding |
|--------------------------------|------------------------------------|--------------------|--|
| Chen Jiaquan (<i>Note 7</i>) | Interest of controlled corporation | 205,853,089 | 5.15% |
| Yang Zhiying (<i>Note 8</i>) | Interest of spouse | 205,853,089 | 5.15% |

Notes:

- Industrial Securities (Hong Kong) Financial Holdings Limited holds the entire issued share capital of China Industrial Securities International Holdings Limited. Therefore, Industrial Securities (Hong Kong) Financial Holdings Limited is deemed or taken to be interested in all the Shares held by China Industrial Securities International Holdings Limited for the purposes of the SFO.
- Industrial Securities Co., Ltd.* holds the entire issued share capital of Industrial Securities (Hong Kong) Financial Holdings Limited. Therefore, Industrial Securities Co., Ltd.* is deemed or taken to be interested in all the Shares held by Industrial Securities (Hong Kong) Financial Holdings Limited for the purposes of the SFO.
- China Credit Trust Co., Ltd holds 40% of the entire issued share capital of Harvest Fund Management Co., Ltd., and Harvest Fund Management Co., Ltd. holds 75% of the entire issued share capital of Harvest Capital Management Co., Ltd. Therefore, China Credit Trust Co., Ltd and Harvest Fund Management Co., Ltd. are deemed or taken to be interested in all the Shares held by Harvest Capital Management Co., Ltd for the purposes of the SFO.
- Intelligence Creation International Limited is the settlor of Intelligence Creation Trust.
- Equity Trustee Limited holds the entire issued share capital of Intelligence Creation Value Limited as the trustee of the Intelligence Creation Trust.
- Intelligence Creation Value Limited holds the Shares issued and allotted pursuant to the Employee Share Participation which is the trust assets of the Intelligence Creation Trust. For further details of the Intelligence Creation Trust, please refer to the paragraph headed "History, Reorganisation and Group Structure – Employee Share Participation Scheme" in the prospectus of the Company dated 30 September 2016.
- Chen Jiaquan holds 70% of the total issued share capital of ApexTrade Holdings Limited and is the sole director of Hao Kang Financial Holdings (Group) Limited and therefore is deemed or taken to be interested in all the Shares held by ApexTrade Holdings Limited and Hao Kang Financial Holdings (Group) Limited for the purpose of the SFO.
- Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the Shares in which Chen Jiaquan is interested.

* For identification purpose only

Other Information

Save as disclosed above, as at 30 June 2017, none of the substantial or significant shareholders of the Company or other persons, other than the Directors and chief executives of the Company whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations" above, had any interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

COMPETING INTERESTS

Save for the continuing connected transactions as disclosed in the section headed "Relationship with the controlling shareholders" and "Connected transactions" in the prospectus of the Company dated 30 September 2016, none of the Directors nor the controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had any interest in business that competed or might compete with business of the Group during the six months ended 30 June 2017.

COMPLIANCE ADVISER'S INTERESTS

As at 30 June 2017, save and except for the compliance adviser's agreement entered into between the Company and Haitong International Capital Limited (the "Compliance Adviser") dated 8 June 2016, neither the Compliance Adviser, nor any of its directors, employees or close associates had any interests in the securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities).

UPDATE ON DIRECTOR'S INFORMATION UNDER RULE 17.50A(1) OF THE GEM LISTING RULES

Upon specific enquiry by the Company and confirmations from the Directors, the changes in the information of the Directors required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules subsequent to the date of the Company's 2016 annual report are set out below:

| Name of Director | Details of Changes |
|-------------------------|---|
| Lan Rong | (1) Appointed as member of the council of Shenzhen Stock Exchange on 17 April 2017. (2) Appointed as supervisor of the Securities Association of China on 17 June 2017. (3) Appointed as chairman and director of AEGON-INDUSTRIAL Fund Management Co., Ltd. on 13 July 2017. |

Other Information

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2017.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code. The Audit Committee comprises a non-executive Director and two independent non-executive Directors, namely Mr. Huang Yilin, Ms. Hong Ying and Mr. Tian Li. The chairlady of the Audit Committee is Ms. Hong Ying.

The Group's unaudited condensed consolidated results for the six months ended 30 June 2017 have been reviewed by the Audit Committee, which was of the opinion that such results have complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable requirement and that adequate disclosures have been made.

By Order of the Board

China Industrial Securities International Financial Group Limited

Lan Rong

Chairman

Hong Kong, 10 August 2017

As at the date of this report, the Board comprises two non-executive Directors, namely Mr. Lan Rong (Chairman) and Mr. Huang Yilin, three executive Directors, namely Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia, and three independent non-executive Directors, namely Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo.